

CHAPTER 7: RENTS

7.1 INTRODUCTION

The purpose of the low interest rate loans that the Agency makes is to enable borrowers to set rents at rates that are affordable to low- and moderate-income tenants, the target occupants for Agency financed multi-family housing. Rents provide the necessary income stream to maintain and operate the housing. Thus, the Agency has a two-fold interest of maintaining the rent streams in multi-family housing so as to protect the value of the property, but at affordable rates.

This chapter presents the program rules regarding rents, occupancy charges and utility allowances for multi-family projects and the Agency's procedures for determining borrower compliance, including those for Farm Labor Housing projects. After reading this chapter, the Loan Servicer will understand the various types of project rents and how they are set, how rents are to be paid by tenants and collected and reported on by the borrower, and the procedure for changing rents in a project. The reader will also learn how security deposits are set and when they may be collected.

Unless otherwise noted, for purposes of this discussion, the term "rents" refers to both rents and occupancy charge and "tenants" refers to both tenant and members of a cooperative.

SECTION 1: RENT REQUIREMENTS

7.2 RENT REQUIREMENTS BY PROJECT TYPE [7 CFR 3560.202]

A. Major Rent Levels

Subject to Agency approval, borrowers set project rents and utility allowances based on debt service and reasonable operating and maintenance expenses. Projects will have one or more of the following four rents:

- **Basic rent.** Basic rent is that which covers the required payment of the mortgage as specified in the borrower's promissory note on the project and reduced by the interest credit agreement, as well as operating and maintenance expenses, and if appropriate, a return on the borrower's equity in a project. Such rent must not exceed conventional rents for comparable units at the time the rent is established.
- **Note rate rent.** Note rate rent is that which covers the required payment of the mortgage set at the interest rate shown in the borrower's promissory note on the project, operating and maintenance expenses, and if appropriate, a return on the borrower's equity in the project.
- **HUD contract rent.** HUD contract rent is used in multi-family housing projects receiving Section 8 project-based rental subsidy.

- **Low-income housing tax credit (LIHTC) rent.** Borrowers who receive LIHTC may establish project rents in accordance with LIHTC requirements. However, borrowers are obligated to ensure that sufficient funds are available to cover the project's approved expenses, including the project's debt service payments to the Agency.

These rent levels will apply depending upon the project type as follows:

- Plan I projects, direct and full-profit projects with loans made prior to 1968 and unrestricted Labor Housing projects all have rents that are note rate only. Tenants all pay the same rent depending upon their unit size.
- Plan II projects have a minimum rent that is the basic rent and a ceiling rent that is the note rate rent. Tenants without rental subsidies (see Chapter 8, Rental Subsidies, for details) pay a rent within that range, based on their incomes. Tenants with rental assistance will pay the basic rent, although the rental subsidy may pay all or a portion of the rent on behalf of the tenant.
- Section 8 projects with interest credit have a minimum basic rent, a maximum note rate rent and a HUD rent.
- Section 8 projects without interest credit have a note rate rent and a HUD rent.

Exhibit 7-1 summarizes the rents that will appear in each project type.

Exhibit 7-1
Rents by Project Type

Project Type	Rents
Plan I projects	Note rate
Plan II projects	Note rate, basic
Section 8/515 projects without interest credit	Note rate, HUD contract rent
Section 8/515 projects with interest credit	Note rate, basic rent, HUD contract rent
Early projects (pre-1968, direct loan and full profit projects)	Note rate
Labor housing—On Farm	No rent
Labor housing—Off farm	Note rate
Congregate housing/group homes	Note rate, basic
Cooperatives	Note rate, basic

B. Setting Rent Levels

Rents are set by unit size and established by the borrower through a project budget at levels adequate to cover debt service, reasonable project operating expenses, and a return to owner if appropriate. Initial rents and any changes must be approved by the Field Office as part of the project budget approval process. Chapter 4, Financial Management, addresses procedures for determining whether project budgets are reasonable.

If a borrower receives grants or contributions from sources other than the Agency (e.g., State or local governments or private sources) that the borrower will use to reduce the project's general operating and management expenses, project rents must be reduced to reflect the funds used to offset project expenses.

7.3 UTILITY ALLOWANCES [7 CFR 3560.202]

When tenants pay some or all of their utility costs themselves, borrowers must establish a utility allowance to determine the amount tenants pay toward rent. The utility allowance is deducted from the total shelter cost calculated for the tenant and the difference is paid by the tenant as rent.

A. Setting Utility Allowances

The utility allowance is based on expected costs for utilities. The borrower uses the Annual Utility Allowance Review Form (see **Attachment 7-A**) to calculate the utility allowance. Once established, the borrower must update the utility allowance annually. This is done in conjunction with the annual budget process. The borrower must submit a new Annual Utility Allowance Form to the Field Office and the procedures described in Section 4 followed. If the borrower does not think a change in the utility allowance is required in any year, the borrower must notify the Agency in the cover letter to the budget that there will be no change in the allowance.

B. Approving Utility Allowances

Field Office staff must review the utility allowance documents submitted with the budget to make sure that the numbers being used are reasonable and comparable to other projects in the same market area. The Loan Servicer should check current rate schedules and known rate increases from such sources as suppliers of electric utility, natural gas utility, water and sewer service, fuel oil and bottle gas; public service commissions; real estate and property management firms; and state and local agencies, including public housing authorities. In addition, the Loan Servicer should check project budgets of any other Agency funded projects in the area to see if utility allowances are similar. Chapter 4, Financial Management provides further guidance on revising cost increase justifications.

C. Monitoring Utility Allowances

In order to make sure that borrowers are correctly applying utility allowances, servicing staff must check tenant leases during site monitoring visits of projects where tenants pay their own utilities. These leases should reflect the current utility allowances as shown on the current approved budget for the project.

7.4 DETERMINING TENANT RENT PAYMENT [7 CFR 3560.203]

Tenants pay rents in an amount that is dependent upon the project type, whether or not utilities are included in the rent, the tenant's income, and the availability of rental subsidy. *Form RD 1944-8, Tenant Certification* is used to determine individual rents. Borrowers must adjust

net tenant contribution and unit rents, if applicable, whenever there is a change in tenant household status sufficient to generate a new certification in accordance with 7 CFR 3560.152.

A. Net Tenant Contribution

Form RD 1944-8, Tenant Certification is used to calculate a tenant's rent based on their income. The net tenant contribution to rent must not exceed the highest of:

- Thirty percent of monthly adjusted income, with an adjustment for any utility allowances, or
- Ten percent of gross monthly income, with an adjustment for any utility allowances, or
- If the household is receiving payment for public assistance from a public agency, the portion of such payment which is specifically designated by that agency to meet the household's shelter costs, or
- The basic rent, unless RHS rental assistance is provided to the household.

Exhibit 7-2**Net Tenant Contribution – Examples**

Example 1: The basic rent for a 1-bedroom unit at Beautiful Acres Apartments is \$200 and the note rate rent is \$250. Tenants at Beautiful Acres pay their utilities directly, so there is a utility allowance of \$60. The Tenant Certification form for Joe Smith shows that he has an annual income of \$12,000. Since he is elderly, he receives a \$400 adjustment for elderly status, giving him an adjusted annual income of \$11,600. In completing the Tenant Certification form, the site manager calculates that 30 percent of Mr. Smith's adjusted monthly income is \$290 and 10 percent of his gross monthly income is \$100. Since he is receiving no payment for public assistance, the site manager enters \$290 on line 30 (which is the highest of 30 percent of adjusted income, or 10 percent of monthly gross income, or the public assistance payment) of the Tenant Certification Form as the Gross Tenant Contribution. The utility allowance must then be deducted, leaving a unit rent payment by Mr. Smith of \$230.

Basic Rent	\$200
Note Rate Rent	\$250
Utility Allowance	\$60
Smith's Annual Income	\$12,000
Adjustment for Elderly Status	\$400
Adjusted Annual Income	\$11,600
30 Percent Adjusted Monthly Income	\$290
10 Percent Gross Annual Income	\$100
Payment for Public Assistance	\$0
Highest of Above	\$290
Deduction for Utility Allowance	\$60
Unit Rent Payment for Smith	\$230

Exhibit 7-2 (Continued)
Net Tenant Contribution – Examples

Example 2: Joe Smith has decided to move to Cozy Home Apartments. The rents there include utilities. The basic rent for a one-bedroom unit for which he qualifies is \$260 and the note rate rent is \$360. His income information is the same, which means \$290 is again entered onto line 30, Gross Tenant Contribution, of the Tenant Certification Form. Since there is no utility allowance, Mr. Smith will make a unit rent payment of \$290.

Basic Rent	\$260
Note Rate Rent	\$360
Utility Allowance	\$0
Smiths Annual Income	\$12,000
Adjustment for Elderly Status	\$400
Adjusted Annual Income	\$11,600
30 Percent Adjusted Monthly Income	\$290
10 Percent Gross Monthly Income	\$100
Payment for Public Assistance	\$0
Highest of Above	\$290
Deduction for Utility Allowance	\$0
Unit Rent payment for Smith	\$290

B. Unit Rents

1. Note Rate Rents

In projects with note rate rents only, tenants will pay the note rate rent, regardless of income, unless they are income-ineligible, in which case they will pay a surcharge (see D below).

When a Plan II project is experiencing severe vacancies due to market conditions, the Agency may allow the borrower to charge a servicing note rent (SNR) in order to attract or retain tenants whose income level would require them to pay note rent. An SNR is less than the note rent but is higher than the basic rent. The requirements for requesting and receiving an SNR are established under 7 CFR 3560.454.

2. Basic Rents

In projects with basic and note rate rents, tenants will pay their net tenant contribution, but no less than the basic rent and no more than the note rate rent.

3. Rental Assistance Rents

Tenants who are eligible to receive available rental assistance in a project pay the net tenant contribution. Rental assistance makes up the difference between the net tenant contribution and the basic rent. Chapter 8, Rental Subsidies, provides further details on charging and collecting rents from tenants with rental assistance.

4. *Section 8/515 Rents*

In projects with Section 8 assistance contracts, HUD sets the rents and utility allowances and tenants pay the borrower rent according to their net tenant contribution, but never less than \$25. The HUD rent should never be less than the basic rent. If it is, the borrower must make up the difference, since it cannot be collected from the tenant.

5. *Tenant-Based Subsidies*

Tenants with tenant-based subsidies such as HUD certificates or vouchers pay the rents established at the project, except the public housing authority sets the utility allowance. If a voucher is in excess of the note rate rent, the voucher will be accepted and the difference between the note rate rent and the voucher value is deposited to the operating account.

C. *Overage*

Any rent collected from a tenant above the basic rent is referred to as overage and is returned by the borrower to the Agency.

D. *Unit Rents for Ineligible Tenants*

There will be times when ineligible tenants occupy multi-family housing units. Such tenants must pay rent based on the type of project they occupy.

Example

Jimmy Smits pays \$180 a month in rent, which is 30 percent of his adjusted monthly income. The basic rent is \$150. The \$30 difference between the basic rent and Mr. Smits' rent payment is called overage.

1. *Surcharge for Ineligible Tenants in Plan I Projects*

Ineligible tenants occupying a Plan I project must pay the established note rate rent plus a rent surcharge of 25 percent of the established rent.

2. *Ineligible Tenants in Plan II Projects*

Ineligible tenants occupying Plan II projects must pay the note rate rent.

E. *Unit Rents for Site Managers, Caretakers, and Owner-Occupied Units*

The rent for a unit occupied by a site manager, caretaker, or owner-occupied unit will depend upon whether or not the unit is being used as a revenue-producing unit. When the unit is being used as a revenue-producing unit, rents for units occupied by a site manager or caretaker are calculated as for any other tenant, on the basis of income.

When used as a non-revenue-producing unit, borrowers must treat the cost of providing the unit the same as other non-revenue-producing portions of the project. Project rental rates will be established as if the unit did not exist as living quarters. However, a tenant certification form will not be prepared in this instance.

With prior approval of the State Director, an owner may occupy a unit in the project when the owner will manage the project rather than hiring a management agent or site manager. If the unit is used as a revenue-producing unit, rental rates will apply to the borrower as they would to any other caretaker or manager.

F. Unit Rents for Low Income Housing Tax Credit Units

1. Setting and Collecting Rents

Unit rents in projects with low income housing tax credits (LIHTC) will be set in accordance with regular Agency program rules. Two examples of setting such rents are provided in Exhibit 7-3. The Field Office must be aware that the LIHTC program prohibits owners from charging tenants more than a certain amount of rent in LIHTC units. Borrowers who do this risk recapture of their tax credits and stiff penalties. While the law does not allow the borrower to collect basic rent from the tenant if it exceeds the LIHTC limitation, overage may be collected from the tenant in only those projects with 1991 and later tax credit allocations if necessary according to the Tenant Certification form and even if that rent exceeds the LIHTC limitations.

2. Agency Review and Monitoring of LIHTC Rents

The law does not excuse the borrower from paying to the Agency the basic rents required; these must be deposited into the operating account in full. Borrowers must be informed by Loan Servicers that the borrowers are responsible for funding any gap between basic rents and tax credit rents collected from tenants when basic rent exceeds tax credit rents. This fact should be noted when the Loan Servicer reviews the project operating budget.

Borrowers must not use project funds to make up any difference between rents required under Agency program rules and the maximum allowed rents under the low income housing tax credit program and they must collect the required rents. During the annual review process, Loan Servicers should review the previous year's budget with a focus on any cash shortfalls. If the Loan Servicer determines that a shortfall exists due to differences between tax credit limitations and basic rents, the official must ensure that a provision is made in the coming year's budget and future years on line 11, "Cash-non project" of the budget form for the owner to contribute necessary funds to meet the required rents.

Exhibit 7-3**Setting Unit Rents for Section 515 Projects with LIHTCs**

Example 1: Assume the units receive only interest credit and no Rental Assistance or Section 8 assistance. One-bedroom apartment: Basic rent—\$275. Tax credit rent—\$250. The expense level required to meet financial requirements of the project exceeds the rent allowed to be charged by the low income housing tax credit program by \$25.

Example 2: Assume a project where tax credit rent is equal to or greater than the basic rent, and a previously eligible tenant's household income increases beyond the tax credit rent. In this case, the tenant may or may not have previously received rental assistance or Section 8. Example: One-bedroom apartment: Basic rent—\$250. Tax credit rent—\$300. Only one co-tenant works. Household pays \$200/month and rental assistance is \$50. Household is Agency and tax credit eligible. Second co-tenant goes to work, causing the household rent to go up to \$350. The new rent level exceeds both basic and tax credit rents. Overage of \$100 is due. Tax credit rent limitations require that the owner charge tenants no more than \$300, which causes a shortage of \$50 per month in overage due the Agency. The owner is therefore accountable for this shortage if the project was allocated tax credits prior to 1991. For projects allocated tax credits after 1990, the owner is allowed to collect the overage due from the tenants because gross rent that tenants pay in the low-income housing tax credit unit does not include any rental payment to the owner of the unit to the extent such owner pays an equivalent amount to the Agency under Section 515. The tenant cannot be required to move based on tax credit ineligibility.

G. Adjustments to Unit Rents

Borrowers must adjust net tenant contribution and unit rents, if applicable, whenever there is a change in tenant household status sufficient to generate a new certification in accordance with 7 CFR 3560.152. Borrowers are not required to recertify a household prior to the annual recertification unless a change in household status will result in an increase in rent payment of \$25 or more per month. See Chapter 6, Project Occupancy, for further details on interim refinancing.

A change in household status could take place in any one of the following circumstances:

- The tenant has had a change in income (increase or decrease).
- The tenant has had a change in the size of the household (increase or decrease in number of people residing in the unit).
- The tenant has had a change in the type of household (the household may become handicapped or elderly, or a 17-year old child may turn 18).

If the tenant certification form shows a change in rents is in order as a result of the change in household status, the effective date of a tenant's changed rent is the first day of the month following third party verification of the tenant's reported changes. However, the management agent must complete the verification process no later than 30 days following the tenant's notice of the change.

7.5 RENTS DURING EVICTION OR FAILURE TO RECERTIFY [7 CFR 3560.208]

Tenants must continue to pay rents during termination through eviction and if they are not recertified for occupancy.

A. Rents for Tenants Being Evicted

Tenants must continue to pay rents as per their tenant certification form while the eviction process is underway.

B. Rents for Tenants Without a Current Certification

A tenant who is not recertified is technically an ineligible tenant and note rate rent must be collected and deposited to the general operating account for that tenant. Whether the tenant or the borrower/management agent pays the note rate depends upon who is to blame for the failure to recertify.

1. Tenant Failure to Recertify

When a tenant fails to recertify, the borrower must prove that the tenant was given due notice to recertify and that the borrower has initiated eviction proceedings. At this point, the tenant will be charged note rate rent and the Field Officer must suspend any Agency rental assistance and interest credit benefits that the tenant has been receiving. If the termination process is nullified, either by completing the recertification process, by judicial action, or the resolution of a discrimination complaint, the Loan Servicer will restore rental assistance and interest credit benefits, and will request rental assistance payment retroactive to the date it was withheld, based on the newly verified tenant certification. The tenant then begins payment of rent according to the new tenant certification form. If the termination process ends with voluntary tenant move-out or court order eviction, whichever comes first, the rental assistance will be assigned to the next tenant who is rental assistance eligible at the time of the move-out or eviction. Chapter 8, Rental Subsidies, provides additional details on rental assistance.

If a tenant fails to be recertified, the Agency will consider any rental assistance that the tenant receives to be unauthorized. The Agency must comply with the requirements of 7 CFR 3560, subpart O in these instances.

2. Borrower Failure to Recertify

When failure to recertify is through the fault of the borrower, or if the borrower cannot prove that the tenant is at fault, the tenant will continue to be charged the rent shown on their current tenant certification. The project or the manager, depending on the requirements of the management plan, must pay overage up to the note rate rent for the tenant.

The Agency will collect any unauthorized assistance received as a result of the borrower's failure to recertify a tenant in accordance with 7 CFR 3560, subpart O. The

borrower may not pay back unauthorized assistance to the Agency from project funds or funds collected from the tenant.

7.6 IMPROPERLY ADVANCED RENTS [7 CFR 3560.209]

Improperly advanced interest credit or rental assistance, whether it was the fault of the borrower or the tenant, will be recaptured in accordance with the requirements established by 7 CFR Part 3560, subpart O.

A. Borrower Error

When rents have been improperly collected from a tenant due to borrower error, such as a miscalculated tenant certification form, the borrower must make up the difference to the Agency for any additional rents that should have been collected or reimburse the tenant for any excess rents collected.

B. Tenant Fraud

When the borrower has collected an incorrect rent amount from the tenant due to tenant fraud, the borrower must make every attempt to recapture the rent due from the tenant. Once the borrower has delivered documentation to the Loan Servicer of failed attempts to collect, the Loan Servicer must comply with the requirements of 7 CFR Part 3560, subpart O to pursue collection.

7.7 MONITORING TENANT CONTRIBUTION AND UNIT RENTS

The Loan Servicer monitors unit rents and tenant contributions on a monthly basis via the project work sheet and tenant certification form. This information is verified during site visits through random interviews with tenants.

A. Borrower Monthly Submissions

Form RD 1944-29, Worksheet for Credit and Rental Assistance, identifies each tenant by name and the rent they pay. The borrower submits this form to the Agency for each project on a monthly basis. *Form RD 1944-8, Tenant Certification Form(s)*, is attached to *Form RD 1944-29* for any new tenant. The Loan Servicer must verify that the rent shown as collected from a new tenant on *Form RD 1944-29* matches the calculated net tenant contribution as shown on the corresponding *Form RD 1944-8* for that new tenant.

Total project rents shown collected on *Form RD 1944-29* must approximate what is shown on the approved budget for the year. If not, the Loan Servicer must talk with the borrower to establish the reason for the difference and whether it reflects a servicing problem, such as vacancies.

B. Site Visits

The Loan Servicer will verify information on *Form RD 1944-29* and *Form RD 1944-8* during site visits through random tenant interviews. If the Loan Servicer is told by any

tenant that they pay a different amount of rent than is shown on *Form RD 1944-29* for that tenant, the Loan Servicer must ask the borrower or management agent to explain the discrepancy.

SECTION 2: SECURITY DEPOSITS

7.8 SECURITY DEPOSITS [7 CFR 3560.204]

Borrowers should collect security deposits as assurance of rental payment or charges for damages when it is reasonable and customary for the area in which the project is located. Security deposits are largely governed by state and local laws; Loan Servicers must familiarize themselves with those laws. The state OGC can direct a Field Officer to the location of information on these laws in the particular state.

A. Allowable Amounts

The borrower must specify the amount of the security deposit that will be charged in a project by unit size in the management profile and the dwelling lease. This amount may not be changed without prior consent of the Agency. The following requirements must be met:

- Borrowers may charge security deposits in an amount that is typical for the area but the security deposit charged a tenant may not exceed that tenant's contribution for one month's rent or the basic rent, whichever is greater.
- Households receiving a HUD rental subsidy must pay security deposits according to HUD requirements.
- Members in a cooperative must pay a membership fee equal to one month's occupancy charge.
- Security deposits for tenants may not be increased in later years, even if the tenant has been residing in the project for a long time and the initial amount charged is not representative of current basic rents or security deposits.

B. Payment Plans

Borrowers must administer security deposits for persons who are eligible for rental assistance or Section 8 assistance in a manner that poses no hardship for the household. If such tenants cannot pay the full amount of the security deposit initially, they may be placed on a payment plan. Should installments not be met, the total charge may become due and payable in full.

1. *Multi-Family Projects*

Households eligible for rental assistance and Section 8 may be allowed to pay a security deposit that does not exceed a down payment of 30 percent of adjusted monthly income plus \$15 per month or an amount needed to complete the security deposit payment in three months, whichever is greater. Borrowers may provide payment over longer terms if desired.

2. *Rural Cooperative Housing Projects*

Members of a rural cooperative may be allowed to pay an initial payment not to exceed \$25 plus the amount needed monthly to complete the membership fee within 3 months. Longer terms may be permitted if desired.

3. *Labor Housing*

For low-income tenants of off-farm labor housing, the security deposit must not exceed \$25 downpayment and \$15 per month until an equivalent of one month's rent is reached. The Agency may make an exception to this for migrants who will occupy the units for a short period of time, when requested by the borrower in writing and when it is shown that such deposits need to be raised to protect the interests of the government and it will not create a hardship for the tenants.

C. Authorized Uses

Funds in the security or membership fund account must only be used for authorized purposes as specified by the borrower's management profile.

Borrowers may assess fair and reasonable charges to the security deposit or membership fee for damage and loss caused or allowed by the tenant. "Fair and reasonable" charges will be based on rehabilitation value. Borrowers may withhold security deposits if the amount of damage equals or exceeds the security deposit. Borrowers may charge tenants for damage or loss costs that exceed the amount of the security deposit. However, borrowers must consider routine turnover expenses, such as painting and carpet cleaning, as normal operating expense and must not pay for these out of security deposits.

An itemized accounting for any charges against the security deposit must be presented to the tenant after the move-out inspection, unless the tenant has abandoned the project and his/her whereabouts are unknown and cannot be ascertained after reasonable inquiry. Resolution of any security deposit disputes must be handled in accordance with State and local laws.

Any amount which is kept by the borrower as a result of lease or occupancy agreement violation must be transferred to the general operating account and treated as income of the housing.

D. Accounting and Interest

Upon receipt, all security deposit or membership fee funds collected must be recorded in a bookkeeping account that is kept separate from the project bookkeeping accounts.

Security deposits must be held in a separate bank account held in a federally insured institution in accordance with 7 CFR 3560.302 (see Chapter 3, Project Management and Financial Operations). These funds are held in trust for the tenant until used or returned to the tenant.

Any interest earned on security deposits will accrue in accordance with state law, but in no case will it accrue to the project management or the borrower. If a state requires the borrower to submit to it the interest earned on security deposits and the borrower collects more interest than is required by the state, the additional interest must be deposited into the general operating account for use by the project.

Any security deposits unclaimed by a tenant must accrue to the project and must be deposited by the borrower into the general operating account.

E. Additional Deposits

Borrowers may charge additional deposits for pets; however, these must not exceed basic rent for the animal owner's unit. Where a service animal is necessary for the normal function of a household member, an additional security deposit must not be charged.

Borrowers must not charge additional security deposits for handicapped households or other classes or distinct groups of people with personal characteristics. However, where it is necessary in order to ensure with reasonable certainty that funds will be available to pay for the restoration of changes made to a unit to accommodate a handicap, at the end of the tenant's occupancy, the borrower may negotiate as part of such restoration agreement, a provision requiring that the tenant or member pay into an interest bearing escrow account, over a reasonable period, a reasonable amount of money not to exceed the cost of the restoration(s). The interest in such account shall accrue to the benefit of the tenant.

7.9 MONITORING SECURITY DEPOSITS

Servicing staff will monitor security deposits charged to and collected from tenants during on-site monitoring visits in the following manner:

- By reviewing dwelling leases and comparing the amount charged with what has been specified in the current management plan.
- By reviewing bank statements to see what the deposits of security deposits total.
- By asking tenants to confirm what they have paid as security deposits.

Any discrepancies must be explained by the borrower or management agent.

Monitoring of security deposit accounts is further addressed in Chapter 3, Project Management.

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SECTION 3: RENT COLLECTION

7.10 RENT COLLECTION [7 CFR 3560.209]

Borrowers must collect rent on a monthly basis. Rents should be due on the first of the month. The time and place of on-site collection and/or the address for payment by mail should be well publicized and consideration should be given to an after-hours depository if needed. Borrowers must maintain an accounting system to collect and track receipts that can be audited.

A. Tracking Rents

Any collection system employed by the borrower must include the following:

- A serially numbered receipt book or similar device to track collections.
- A ledger which shows which tenants have paid their rents and which have not.
- If collections are held on site, they must be secure. A safe may be used to ensure security.

The borrower must explain how the above requirements are to be met in the management profile. The Loan Servicer will verify that these requirements are being met during on-site supervisory visits by asking to see the receipt book or similar tracking device, the ledger, and the on-site collection device, if any.

B. Fees for Late Payments

Borrowers may institute a schedule of late fees. The Loan Servicer can automatically approve a schedule that provides for:

- A grace period of 10 days from the rental charge due date.
- A late payment penalty which does not exceed the higher of \$10 after the grace period or an amount equal to 5 percent of the tenant's gross tenant contribution.

Any other type of schedule must be submitted by the borrower to the Agency for approval. All schedules must be in accordance with state and local laws and must be justifiable. In order to approve the schedule, the Loan Servicer needs to make sure that the fees are not excessive, are customary for the area and allow for a reasonable grace period.

Tenants that receive housing benefits from sources other than the Agency may be subject to the late rent fee requirements of the other funding sources.

The borrower must describe any late fee schedule in the management profile. During the on-site supervisory visit, the Loan Servicer must ask tenants about the late fees schedule to make sure it is as the borrower has described it. The Loan Servicer must also check leases to confirm that the late fee schedule is stated and matches its description in

the most current management profile. Any discrepancies must be explained by the borrower.

7.11 BORROWER REPORTING OF RENTS

Borrowers must report to the Agency on *Form RD 1944-29, Worksheet for Credit and Rental Assistance*, all rents, overages, and surcharges collected. This form shows the occupancy status of each unit and rents collected from each tenant. This form is submitted to the Loan Servicer who will input the individual data into MTFIS.

7.12 BORROWER PAYMENT AND AGENCY TRACKING OF OVERAGE

Overage is the amount by which total rental payments paid or to be paid by the tenants of a project exceed the total basic monthly charge (see paragraph 7.4). Borrowers identify any overage collected on *Form RD 1944-29, Worksheet for Credit and Rental Assistance*. Overage is returned by the borrower to the Agency. Overage for an account with an interest credit agreement is charged to the account as additional interest on the initial loan.

A. Agency Tracking of Overage

The Loan Servicer must enter overage that is reported and returned by the borrower with *Form RD 1944-29* into the on-line payment system in accordance with the Forms Manual Insert for *Form RD 1951-55, Collection Log*. Overage is coded for Agency accounting purposes depending upon from whom it is collected as follows:

- **Overage Type 1:** Rents paid by tenants in a Plan II project which are in excess of the basic rent up to the note rate rent.
- **Overage Type 2:** HUD contract rents in a Section 8/515 project with interest credit which are greater than the one or two percent reduced rate rent, up to the note rate rent.
- **Overage Type 3:** HUD contract rents in a Section 8/515 project with interest credit which are greater than the note rate rent. These rents go into the project reserve as excess funds.

For additional information on how the Agency handles overage, please refer to the AMAS manual.

B. Payment of Overage for Multi-Family Projects With Interest Credit and No Subsidies

When 30 percent of a tenant's adjusted income exceeds the basic rent, the difference they pay in rent between the basic rent and the note rate rent is referred to as overage. This is returned by the borrower to the Agency as extra interest payment on the loan. Exhibit 7-4 provides an example of how overage is paid.

Exhibit 7-4
Sample Overage Payments at Sunny Brook

Basic Rent: \$250		Note Rate Rent: \$300		Utility Allowance: \$0	
30% of Adjusted					
Tenant	Monthly Income	Rent Payment		Overage Payment	
Anderson	\$200	\$250		\$0	
Reese	\$250	\$250		\$0	
Armour	\$275	\$275		\$25	
Bishop	\$300	\$300		\$50	
Grate	\$350	\$300		\$50	

C. Payment of Overage for Section 8/515 Projects

It is Agency policy that any funds paid by HUD are paid on behalf of a tenant. Therefore, the Agency does not consider any Section 8 payments as excess funds until after any benefits provided by the interest credit agreement are recovered. Borrowers must collect overage for their tenants as follows.

1. For Section 8/515 Projects With a One Percent or Two Percent Reduced Interest Rate

In 100 percent Section 8/515 projects when the HUD contract rental rate is more than the one or two percent reduced interest rate and is either equal to or less than the note rate rent, overage will be paid to the Agency in an amount equal to the difference between the HUD contract rental rate and the one or two percent reduced interest rate. The overage is reported as overage type 2.

In 100 percent Section 8/515 projects when the HUD contract rental rate is greater than the note rate rent, the difference between the one or two percent reduced interest rate and the HUD contract rate will be paid to the Agency and reported as overage type 2. The amount equal to the difference between the HUD contract rental rate and the Agency note rate rent will be deposited in the reserve account as excess income.

In 100 percent Section 8/515 projects when the HUD contract rental rate exceeds the note rate rent, the borrower must use *Form RD 1944-29, Worksheet for Credit and Rental Assistance*, Part I, items 23 through 29, to document the required deposit in the reserve account, even though the form indicates Plan II only.

Exhibits 7-5 and 7-6 provide examples of how overage is determined in Section 8/515 projects.

Exhibit 7-5

**Determining Overage in Section 8/515 Projects
With 1 or 2 Percent Reduced Interest Rate—Examples**

<i>Example 1</i>		
1 or 2 Percent Reduced Interest Rate	HUD Contract Rent	Note Rate Rent
\$250	\$300	\$375
\$50 difference paid to Agency as overage type 2		\$75 interest credit
<i>Example 2</i>		
1 or 2 Percent Reduced Interest Rate	Note Rate Rent	HUD Contract Rent
\$250	\$375	\$400
\$125 difference paid to Agency as overage type 2		\$25 required to be placed into reserve
Note: If the HUD contract rent and the Agency 1 or 2 percent reduced interest rent are the same, then the first column would not apply.		

2. For Section 8/515 Projects With Full Interest Credit

In Section 8/515 projects the overage is the difference between basic rental rate and the note rate rent including the income from HUD. The overage will be reported as type 3.

In the cases where the HUD contract rental rate exceeds the note rate rent the difference is excess income and will be deposited in the reserve fund. The borrower should use *Form RD 1944-29*, Part I, items 23 through 29, to document the required deposit in the reserve account.

Exhibit 7-6**Determining Overage in Section 8/515 Projects
With Interest Credit—Examples**

<i>Example 1</i>		
Basic Rent	HUD Contract Rent	Note Rate Rent
\$175	\$300	\$375
\$125 difference paid to Agency as overage type 3 by Section 8 tenants and subject to overage type 1 by non-Section 8 tenants		\$75 interest credit and subject to overage Type 1 from non-Section 8 tenants
<i>Example 2</i>		
Basic Rent	Note Rate Rent	HUD Contract Rent
\$175	\$375	\$400
\$200 difference paid to Agency as overage by Section 8 tenants and subject to type 1 overage by non-Section 8 tenants		\$25 required to be placed in reserve account as excess income

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SECTION 4: RENT CHANGES

7.13 OVERVIEW OF RENT CHANGES

All borrowers, including those using HUD Section 8 contract assistance, must obtain prior Agency approval for a rent increase. Changes in rental rates will apply to all units in a project. Rent change requests for multi-family housing projects with no HUD subsidy are typically submitted and reviewed at the same time the borrower submits their annual budget for approval. Rent changes in Section 8/515 projects resulting from automatic rent increases by HUD must also be reviewed and must not automatically be approved. For any project, only the amount of rent necessary to cover project expenses must be approved. This section covers rent changes in projects without HUD subsidies, then changes in projects with HUD subsidies.

7.14 CHANGES IN RENTS AND UTILITY ALLOWANCES IN PROJECTS WITH NO HUD SUBSIDIES [7 CFR 3560.205]

It may be necessary as operating costs and/or revenues in a project fluctuate for the borrower to request Agency approval to effect a rent change. Exhibit 7-7 shows the time line for borrower submission and Agency review of rent change requests.

A. Switching to Plan II Projects

If the project for which the rent increase is being requested is not a Plan II project, the Field Officer must first encourage the borrower to change their loan status to Plan II. This can be done by having the borrower execute a new or amended loan resolution or loan agreement and a *Form RD 1944-7, Multi-Family Housing Interest Credit and Rental Assistance Agreement*. Switching to Plan II may result in the rent increase becoming unnecessary.

If switching to Plan II is not possible or relevant, the borrower must submit a rent change request at the time of the annual budget submission and give proper notification to tenants of the rent change request.

Exhibit 7-7
Rent Increase Request Time Line

Day	Event
120 days prior to project's fiscal year <i>September 1*</i>	Borrower sends notice of rent change request to the Agency and tenants <ul style="list-style-type: none"> Tenants have 20 day comment period to get back to borrower and Borrower has 10 days after the tenant comment period to compile and submit the comments to the Agency.
90 days prior to project's fiscal year <i>October 1</i>	Borrower submits first budget to the Agency <ul style="list-style-type: none"> Agency conducts completeness review within 5 days, then Agency conducts acceptability review within 20 days
75 days prior to project's fiscal year <i>October 15</i>	Agency sends notice of denial of rent/utility allowance change to borrowers with unacceptable budgets. The notice details deficiencies and tells borrower they have 10 business days to respond.
60 days prior to project's fiscal year <i>October 31</i>	Borrower responds to Agency notice of unacceptable budget due.
30 days prior to project's fiscal year <i>November 30</i>	Agency makes final decision on rent increase. If decision is no, Agency authorizes borrower to continue under current budget or submit revised budget with no rent increase. If decision is yes, borrower must notify tenants that the rent/utility allowance increase goes into effect 30 calendar days from the date of the notification unless the rent increase will be the same as was stated in the initial notice to tenants.
1 day prior to project's fiscal year <i>December 31</i>	Revised budgets with no rent increase due from borrower to Agency.
* The dates provided are based on a fiscal year that begins January 1. For projects with different fiscal years, adjust accordingly.	

B. Timing of Rent Change Request

Borrowers must submit to the Agency rent and utility allowance change requests in conjunction with the annual budget submission. In order to provide the necessary time for a tenant comment review period, the borrower must notify the Agency of the amount of the rent change request that they intend to submit with their annual budget 30 days prior to the date the budget is due. At the same time, the borrower will provide their tenants with a notice of the amount of the rent change request that they intend to submit to the Agency. The borrower must submit the budget and final rent change request to the Agency 30 days later and the rent change request will reflect any changes made based on the tenant comments received.

1. Rent Change Requests Under Special Circumstances

The Loan Servicer may accept borrower requests for rent or utility allowance changes at times other than with the annual budget submission under special circumstances where a change is necessary to preserve the financial integrity of a project and the financial distress is due to circumstances beyond a borrower's control. Such circumstances might be in the event of a natural disaster or when work-out procedures are necessary.

2. Annual Utility Allowance Reviews

The borrower must review utility allowances on an annual basis to determine whether any changes have to be made. If no change is necessary, the borrower must make a statement in the cover letter to the annual budget submission or include a public release from the utility provider indicating no change in rates have occurred during the period reviewed. If a change is needed, the request must be made as described in this section.

C. Tenant Notification and Comments

At the same time the borrower submits the initial notice to the Agency that they intend to submit a rent change request, the borrower will send or deliver notices to each tenant in the project notifying them of the rent change request that will be submitted to the Agency with their annual budget. **Attachment 7-B** provides an example of such a notice. The borrower must also post this notice in a common area frequented by the tenants, such as the laundry room or near the mailboxes.

The notice must notify tenants that they have 20 days to provide their comments to the borrower on the rent change. If during this time the Agency receives any tenant comments, these must be immediately forwarded to the borrower, with the identity of the tenant protected. This can be done by either paraphrasing the comments for the borrower or by removing any identifying information from the correspondence received from the tenant and forwarding it on to the borrower.

After the 20-day tenant comment period is over, the borrower must within 5 calendar days and within 30 days of submitting to the Agency the notice of intent to request a rent change, submit to the Agency a summary of the tenant comments and the final budget and rent change request. Any deviation in the rent change specified in the initial notice to the Agency must be explained in the cover memo to the budget.

D. Documentation

The borrower must fully document any rent change request. Requests for a rental charge change must be based on a realistic projected budget for the interim year or the ensuing full year. The borrower must provide to the Agency the information identified in Exhibit 7-8 with the rent or utility allowance change request.

Exhibit 7-8**Information Required to Document Rent or Utility Allowance Change Request**

1. Budget Form 1930-7. *Form RD 1930-7, Multi-Family Housing Project Budget*, must be used to reflect the project's financial needs for the year and thereby rental charge requirements. A narrative cover letter must be included explaining why the rent change is necessary. A new operating budget for the fiscal year must show:
 - Currently approved budget at old rents.
 - Actual income and expenses to date.
 - Proposed budget at proposed new basic rents.
 - Proposed budget at proposed new note rate rents (if applicable).
2. Actual utility costs. Actual utility costs for representative units in the project must be shown and, whenever any utility allowance was approved over 12 months ago, an updated Exhibit A-6 when tenants or members pay their own utilities.
3. Additional documentation. Additional documentation must be attached to *Form RD 1930-7* in accordance with the instructions to these forms as evidence of the need for the rent or utility allowance change.
4. Comparable market rents. Data showing comparable rents must be shown if the change is for an increase.
5. Tenant comments. Copies of the tenant comments if the change is for an increase as well as a summary of the tenant comments.
6. Other information. Any other information the borrower believes is necessary to justify the proposed shelter cost change.

The narrative attached to the budget form must clearly explain the necessity for the change request and the Loan Servicer must analyze the supporting documentation to the budget and the Annual Utility Allowance Review Form to see if it supports the request. For example, if the rent increase is due to increased taxes, then the Field Officer should look for copies of tax increase notices in the budget documentation. If the rent increase is due to an increase in general operating expenses, the Field Officer must review those expenses for reasonableness. Chapter 4, Financial Management, discusses reasonableness and how a budget should be reviewed for acceptability.

The "actual" column of *Form RD 1930-7, Multi-Family Housing Project Budget* must contain actual data for the fiscal year to date plus the projection of expected data for the remainder of the fiscal year. When a borrower needs to request a rental charge and/or utility allowance change at some time other than with the regular budget submission, *Form RD 1930-7* shall reflect the project's financial needs for the next 12 months of operation and the "actual" column shall reflect the most recent 12 months of actual data. The previous fiscal year's audit report, or *Form RD 1930-8, Multi-Family Housing Borrower Balance Sheet*, as appropriate, shall be submitted with the change request if it was not previously submitted to the Field Office.

E. Agency Responsibility

1. Reviewing the Rent Change Request

When the borrower submits a budget with a rent or utility allowance change request, the Agency must respond to the borrower within 30 days. Remember, the Loan Servicer will have received prior warning that the budget will include a rent change request when they received the notice from the borrower to that effect.

If the Agency does not contact the borrower within 30 days, the borrower may assume that any rent change request of \$25 or less has been automatically approved. A rent increase above that amount is assumed to be automatically disapproved if the borrower is not notified of approval by the Agency.

The Loan Servicer must review the rent increase request for completeness within 5 days of receipt of the budget and rent change request and notify the borrower within that time if additional information is required. The borrower must be given 10 business days to respond to a request for additional information.

2. Circumstances in Which the Agency Will Not Approve a Rent Increase

The Loan Servicer must not approve a rent increase under the following circumstances:

- The borrower is able but unwilling to comply with program requirements. Such a borrower has ignored repeated requests from the Loan Servicer to take servicing actions by a specified deadline.
- If the borrower is in default of the Agency loan agreement and does not have an Agency-approved work-out plan, or is not in compliance with an Agency-approved workout plan.
- There are sufficient project funds under the existing rents to meet project operating expenses and the borrower is not able to justify the higher rents. Such a condition is established when the project budget shows that income meets expenses at current rent levels.
- The project is operated on a profit basis and the rent change would result in rents higher than what tenants can afford. This condition is established by comparing rents with 30 percent of tenant adjusted incomes. If it is shown that tenants would be paying in excess of 30 percent of their adjusted incomes as new rents and the increase is not necessary to meet projected costs, then the increase must not be approved.
- The basic rents in the project would exceed comparable conventional rents in the area. Comparable conventional rents can be obtained by contacting local real estate and property management firms and/or public housing authorities.

3. Denial of Rent Change Request

If the Loan Servicer denies the change request, the borrower must be notified within 30 days of budget submission of the reasons for the denial and given 10 business days to respond. If after reviewing the additional information the Field Officer concludes that the rent change request must be denied, the borrower must be so informed 30 days from the initial denial notice. The Agency may then authorize the borrower to either continue under the current budget, or submit within 30 days a new budget using the same rents.

F. Effective Dates of Change

The effective dates of any approved changes will coincide with the start of the project's fiscal year or the start of the season for labor housing projects. If the Agency approves the rent or utility allowance increase request on which comments were solicited, the borrower must deliver a notice to tenants announcing the rent or utility allowance increase to be effective 30 calendar days from the date of the notification, unless the rent increase will be the same as what was stated in the initial notice to the tenants.

If the figure is revised downward, the borrower must notify the tenants of their new rents prior to the first day of the month in which the new rent amounts are due. However, the borrower does not have to give 30 days' notice of the new rents in this case.

7.15 RENT CHANGES FOR UNITS RECEIVING SECTION 8 ASSISTANCE [7 CFR 3560.207]

The Agency has the responsibility to review and approve project budgets on an annual basis based on need to meet cash flow and expense requirements. Therefore, the Loan Servicer will not take into account HUD's automatic annual adjustment for Section 8 contract rents. The Loan Servicer must approve only the rents needed to provide sufficient income to meet approved project expenses.

A. Reviewing Budgets With HUD Subsidies

Since HUD and the Agency-approved rental rates frequently differ, it may be necessary to have a three-column budget in properties with Section 8 contracts. Exhibit 7-9 depicts how many columns are required in the budget, depending upon the project type.

Exhibit 7-9**Reviewing Budgets with HUD Subsidies**

Project Type	Columns Needed in Budget
<ul style="list-style-type: none"> • 100 percent Section 8/515 with interest credit; HUD contract rent rate is equal to basic rent • 100 percent Section 8/515 with interest credit; HUD contract rent is greater than basic rent and less than note rate rent • 100 percent Section 8/515 without interest credit; HUD contract rent is greater than note rate rent • Less than 100 percent Section 8/515 with interest credit; HUD contract rent is greater than basic and less than or greater than note rate rent 	<ul style="list-style-type: none"> • One column only showing HUD contract rent • Three columns showing basic rent, HUD contract rent and Agency note rate rent • Two columns showing HUD contract rent and note rate rent; difference is excess funds and deposited into reserves • Three columns showing basic rent, HUD contract rent and Agency note rate rent

B. Excess Rents

When reviewing the budget, if the Loan Servicer concludes that the HUD authorized rent is more than what is needed to meet project expenses, a lesser amount than the HUD rent must be approved. When this occurs, in accordance with Exhibit 7-9, the borrower may be told to deposit the difference between the Agency approved note rate rent and the higher HUD authorized rate into the general operating account. At the end of the year, this “excess rent” will be deposited into the reserve account. The manager or borrower must use *Form RD 1944-29, Worksheet for Credit and Rental Assistance*, part I, items 23 through 29, to document the required deposit in the reserve account.

If excess HUD rents accumulate in the reserve account beyond the sum shown in the borrower’s loan agreement or resolution, the Loan Servicer may reduce or cancel the interest credit on the project. The Agency may reinstate interest credit whenever HUD rent should become lower than the Agency note rate rent.

Before depositing excess funds in the reserve account, the borrower may have to collect overage. Paragraph 7.12 provides the details on how this is done. Whether or not overage is collected and a project is subject to cancellation of interest credit depends upon the issuance date and execution date of the project’s interest credit agreement.

Certain early versions of the interest credit agreement do not have a legal basis to support the Agency’s policy to cancel interest credit or collect overage to offset interest credit. Each Section 8/515 project needs to be categorized according to the issuance date and execution date of the project’s interest credit agreement on *Form FHA 444-7* or its successor *Forms FmHA 444-7* and *FmHA 1944-7*. Exhibit 7-10 provides a description of the rules which apply to each interest agreement form.

7.16 MONITORING COMPLIANCE

The Loan Servicer will monitor compliance with the requirements of the rent and occupancy charge during supervisory visits, through monthly documentation submitted by the borrower, and at budget time.

A. Supervisory Visits

The Loan Servicer must check project files to ensure that these files correspond with information provided to the Field Office. In addition, the Loan Servicer must ask the tenants about the amount of rent and security deposits they pay and the method of payment to make sure that the borrower is actually implementing the procedures described in the management profile.

If a borrower implements an unauthorized rent or utility allowance charge, the Agency will require the borrower to roll back rents to the last authorized rent charge, and the borrower must reimburse tenants for any unauthorized rents collected.

Exhibit 7-10

Impact of Interest Credit Agreement on Ability to Cancel Interest Credit, Collect Overage, and Deposit Excess Funds in the Reserve Account

Form	Executed Before October 27, 1980	Executed On Or After October 27, 1980
FHA 444-7, dated 11/17/69 and 7/27/72	No basis to cancel or reduce interest credit, collect overage, or deposit excess funds in the reserve account unless the borrower agrees.	Legal basis exists to cancel or reduce interest credit, collect overage, and deposit excess funds in the reserve account and/or apply it on the loan.
FmHA 444-7, dated 10/13/77	<ul style="list-style-type: none"> • If first, second, fourth or fifth block of paragraph 2 checked, no legal basis to cancel or reduce interest credit, collect overage, or deposit excess funds into reserves. • If the third block of paragraph 2 is checked, no legal basis to cancel or reduce interest credit, unless borrower agrees. However, there is legal basis to collect overage and deposit excess funds to reserves and/or apply it on the loan. 	Legal basis exists to cancel or reduce interest credit, collect overage, and deposit excess funds in the reserve account and/or apply it on the loan.
FmHA 1944-7, dated 11/29/82		Legal basis exists to cancel or reduce interest credit, collect overage, and deposit excess funds in the reserve account.
FmHA 1944-7, dated 4/85		Legal basis exists to cancel or reduce interest credit, collect overage, and deposit excess funds in the reserve account.

B. Monthly Borrower Submissions

The Loan Servicer must carefully check *Form RD 1944-29, Worksheet for Credit and Rental Assistance* and *Form RD 1944-8, Tenant Certification*, to make sure that the correct rents are being charged according to income.

C. At Budget Time

The Loan Servicer must carefully review the budget to ensure that income reflects rents collected and that expenses are reasonable and justify the rents being charged.

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SECTION 5: RENTS FOR LABOR HOUSING PROJECTS

7.17 OFF-FARM LABOR HOUSING

A. Rent Structure

Tenants in Off-Farm Labor Housing are required to make a monthly rent payment in the amount equal to the greater of:

- In units with rental assistance, 30 percent of their income for rent in accordance with the amount calculated annually on *Form RD 1944-8, Tenant Certification*; or
- The approved rent, when rental assistance is not available.

B. Establishing a Basic Rent at the Property

For each Off-Farm Labor Housing project the Agency will establish a basic rent in accordance with the project's annual operating budget. This basic rent will be equal to the project's operating expenses, plus the debt service payment based on the project's one percent interest rate, as approved by the Agency.

C. Rental Payments Received in Excess of the Basic Rent

To the extent that rental charges are collected on each unit in excess of the basic rent needed to operate the property, the borrower will utilize these funds to ensure that the general reserve account is fully funded in accordance with the requirements of 7 CFR 3560.65.

D. Adjustment of Rental Charges

Adjustments of rents will be in the same manner as prescribed in this chapter for a Section 515 rental project.

7.18 ON-FARM LABOR HOUSING

Rents for On-Farm Labor Housing should be in accordance with the employment agreement between the tenant and the borrower. In general, rents should not be required for projects assisted through the On-Farm Labor Housing program. Borrowers who choose to charge rents at On-Farm Labor Housing properties must comply with the rent setting and adjustment procedures established for Section 515 projects in this chapter.

ATTACHMENT 7-A
ANNUAL UTILITY ALLOWANCE REVIEW
(Old Exhibit A-6)

ATTACHMENT 7-B

NOTICE TO TENANTS (MEMBERS) OF PROPOSED RENT (OCCUPANCY CHARGE) AND UTILITY ALLOWANCE CHANGE (Revamped Exhibit C-1)

Date Posted

You as a tenant (member) are hereby notified that, subject to approval by the Rural Housing Service, rents (occupancy charge) and utility allowances may be changed effective _____.
(at least 60 days from this posting or other timeframe if required by State law.)

_____ [Project Owner's Name] has filed a request for approval of a change in the monthly rent (occupancy charge) and/or utility allowances as of the [name of the apartment complex] with the Rural Housing Service of the U.S. Department of Agriculture for the following reasons:

- 1.
- 2.
- 3.
- 4.

Planned rent (occupancy charge) changes are as follows:

Unit Size	Present Rent (Occupancy Charge)		Proposed Rent (Occupancy Charge)		Amount Changed
	Basic	Note Rate	Basic	Note Rate	
Efficiency					
1-Bedroom					
2-Bedroom					
3-Bedroom					
4-Bedroom					
5-Bedroom					

Planned utility allowance changes are as follows:

Unit Size	Present Utility Allowance	Proposed Utility Allowance	Amount Changed
Efficiency			
1-Bedroom			
2-Bedroom			
3-Bedroom			
4-Bedroom			
5-Bedroom			

(Use the following paragraph when the tenant is receiving rental assistance)

Since you receive rental assistance, your contribution toward your rent (occupancy charge) and utilities will NOT be changed UNLESS your income and/or household composition changes.

All materials justifying the proposed changes have been reviewed by the Rural Housing Service and will be made available to you and other tenants (members) to inspect and copy at _____ [location address] on the following dates and times:

_____.

You may submit comments or objections in writing to the Rural Housing Service during the 20-day period immediately following the posting of this notice. Comments or objections should include reasons or information you feel should be considered by the Agency. Your comments or objections must be filed prior to _____ (insert date) with _____ (insert loan servicer's name) located at _____ (insert complete address of office).

These comments will be reviewed by the Rural Housing Service and forwarded to the official who will decide if the change(s) should be approved.

Each tenant (member) will be notified in writing of any Rural Housing Service's decision to deny or modify the change. If no further notification, the change will be implemented as stated in this notice. The approved rents and utility allowances will then be effective upon the effective date given above. **If you receive Rental Assistance, and the portion of the rent that you pay will either remain the same or decrease, you will not receive another written notice of an increase in rent.** If you receive Rental Assistance, and the portion of the rent that you pay will increase, you will receive a ___-day (insert 30 or 60 days, whichever is applicable).

Signed:

Borrower/Borrower's Representative